

ATTACHMENT 2

Projecting Residential Savings in New Hampshire's Telephone Market

One Year After Verizon's Entry into the New Hampshire Long-Distance Market

Prepared by the Telecommunications Research and Action Center (TRAC)

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Synopsis

The Telecommunications Research Action Center (TRAC) projects that within one year of Verizon's entry into the long-distance market, over 110,000 New Hampshire customers could switch to Verizon's long-distance service and over 117,000 customers could switch to a competitive local telephone service. As highlighted in Table 1, these customers could realize up to \$71 million of annual statewide savings resulting from increased competition in the long-distance telephone market.

Table 1: Summary of Potential New Hampshire Consumer Savings One Year After Verizon's Entry Into the New Hampshire Long-Distance Market

Savings	Long-Distance Savings	Local Savings	Total of Long-Distance and Local Savings
High-estimate (annual)	\$ 28,164,115	\$ 43,165,362	\$ 71,329,477
Low-estimate (annual)	\$5,725,818	\$(8,509,301)	\$ (2,783,483)
High-estimate, per customer (annual)	\$254.40	\$368.25	N/A
Low-estimate, per customer (annual)	\$51.72	\$(72.63)	N/A
High-estimate (per month)	\$ 2,347,010	\$ 3,597,114	\$ 5,944,124
Low-estimate (per month)	\$ 477,188	\$(709,108)	\$ (231,920)
High-estimate, per customer (monthly)	\$21.20	\$30.69	N/A
Low-estimate, per customer (monthly)	\$4.31	\$(6.05)	N/A
Customers Affected	110,708	117,208	N/A

Background

The purpose of this report is to estimate the potential savings that New Hampshire consumers could reasonably expect to achieve on their local and long-distance telephone bills one year after Verizon's entry into the long-distance market. Over the past two years, TRAC has monitored the impact of state telecommunications regulatory activity on consumers in a number of states. As with each of these previous studies, this examination of New Hampshire was conducted to ascertain if greater competition in the long-distance telephone market would yield financial savings to consumers. TRAC has found that increased competition in the local and long-distance telephone markets provides consumers with greater choice and lower overall telephone bills.

A TRAC study completed in April 2001 concluded that one year after Verizon's entry into the New York long-distance market, more than 1.7 million residential customers had switched to Verizon's long-distance offerings and 2.7 million residential customers switched from Verizon to a competitor's local service. Those customers were projected to save between \$79 and \$284 million annually on their long-distance telephone bills and between \$118 and \$416 million on local telephone bills. A September 2001 TRAC report

estimated that consumers in Pennsylvania, Illinois, Florida and Georgia could collectively save between \$508 million and \$1.8 billion a year on local and long-distance calling. A November 2001 TRAC study of the California market revealed potential consumer savings resulting from greater competition in the local and long-distance telecommunications market of \$143 to \$881million annually. Most recently, in December 2001, TRAC found that New Jersey consumers could save between \$22 million and \$167 million one year after greater competition in the long-distance market alone.

As with these other TRAC investigations, this TRAC New Hampshire report uses the most up-to-date rate information included in the soon-to-be released TRAC's *TeleTips(tm) Residential Long-Distance Comparison Chart* and *Local Service Comparison Chart*. The long-distance chart includes rate information from a variety of plans. The local chart includes rate information from Verizon and AT&T Broadband.

The methodology used in this TRAC examination is based closely on that used in the TRAC New York study. Additionally, the same estimates of customer telephone calling habits, specifically frequency and usage of calls, used in the New York study were used for this New Hampshire study. The number of customers projected to be affected by a new entrant in the long-distance market in New Hampshire was in part based on the percentage of customers affected in New York. Further explanation of this report's methodology and assumptions can be found in Appendix A (Methodology).

Discussion of Study Results

As highlighted in Table 1, one year after increased competition in New Hampshire's long-distance market, TRAC projects that 110,708 customers could reasonably be expected to switch to Verizon's long-distance service and 117,208 customers could reasonably be expected to switch away from Verizon to a competitor's local service offerings.¹

The average (mean) of the study's range of savings indicates that New Hampshire consumers could save approximately \$34 million on their local and long-distance phone bills within one year of Verizon's entry into the state's long-distance market. Appendix B provides details on how consumers with different calling habits could save money on their local and long-distance bills.

The low-end of annual residential long-distance savings that could reasonably be expected in the wake of Verizon's entry into the long-distance market is approximately \$5.7 million and the high-end is \$28 million. The average (mean) of this range of savings indicates that the state's consumers could likely save approximately \$17 million in one year. On a monthly basis, New Hampshire consumers could reasonably expect to realize between \$477,188 and \$2,347,010 of long-distance savings each month for one year after Verizon's entry into the long-distance market. Each customer that might switch to Verizon for long-distance service could reasonably expect to save between \$4.31 and \$21.20 a month, or \$51.72 and \$254.40 a year. The average (mean) of the low and high-estimates indicates that a typical consumer could expect to save approximately \$12.76 a month or \$153.12 a year by switching to Verizon's long-distance services.

One year after Verizon's entry into New Hampshire's long-distance market, 117,208 New Hampshire customers could reasonably be expected to achieve fluctuations in annual telephone costs and savings, resulting from a loss of \$-8.5 million to a savings of \$43 million by switching their local telephone service

¹ At the present time, aside from Verizon, AT&T Broadband provides the largest facility based alternative to Verizon in New Hampshire. A variety of independent local carriers and competitive local exchange carriers provide telephone service.

from Verizon to another competitor. The average (mean) of this range of savings indicates that the state's consumers could likely save approximately \$17 million in one year by switching to a competitor's local phone service. On a monthly basis, New Hampshire consumers could reasonably expect to realize costs and savings in the order of between \$-709,108 and \$3,597,114 resulting from a switch from Verizon to another provider of local phone service. Due to increased telephone competition, a customer that switches to a competitive provider of local service might experience costs and savings in the order of \$-6.05 and \$30.69 a month, or \$-72.63 and \$368.25 a year. The average (mean) of the low and high-estimates indicates that a typical New Hampshire consumer could expect to save \$12.32 a month or \$147.84 a year by leaving Verizon for another local service provider. The aforementioned negative savings occur because Verizon's most competitively priced local plans are lower than AT&T Broadband's lowest plans.

Conclusion

TRAC projects that residential customers would benefit greatly from increased competition and choice in the New Hampshire telephone market.

This study of the New Hampshire marketplace illustrates how the addition of one competitor to the marketplace can result in significant consumer savings. TRAC believes that in aggregate New Hampshire consumers could realize up to \$71 million in savings on their local and long-distance telephone bills one year after increased competition in the long-distance market. During that timeframe, TRAC estimates that 117,208 customers might switch their local phone service away from Verizon and 110,708 customers might switch their long-distance service to Verizon. TRAC projects that an individual customer could achieve up to \$254 in annual long-distance savings once Verizon enters the long-distance market. At the same time, a customer that chooses an alternative to Verizon's local service could save up to \$368 annually on his or her local telephone bill.

This report demonstrates that increased competition in the long-distance market can result in significant consumer savings on telephone bills. The sooner consumers are given greater choices in their service providers, the sooner they will be able to realize those savings.

APPENDIX A Methodology

TRAC developed the methodology for this report based on its experience investigating potential residential savings in New York, New Jersey, Florida, Illinois, Pennsylvania, Georgia and California. Although each state is unique, TRAC believes that the original methodology employed during its examination of New York is appropriate and valid for this study of New Hampshire. In general, TRAC based its calculations of projected savings on updated telephone rates and population variation while keeping other variables constant. Included below is a discussion of the issues TRAC considered while developing this study.

Data Collection

Data was based on TRAC's soon to be released local and long-distance *TeleTips_(sm)* Charts. A summary of the data collection methodology can be summarized as follows:

Information detailing residential phone rates was obtained by researching web sites of major phone companies. Any information that could not be found on the web sites was obtained by speaking with telephone company customer service representatives and was confirmed with at least one other company representative.

TRAC divided callers into calling baskets based on their levels of phone usage and the time of day of that usage. Callers were divided into three categories: those who make most of their calls during the day, those who make most of their calls at night or on the weekends, and those whose calls are spread evenly over days, nights, and weekends.

To be even more representative of consumer phone usage, TRAC factored in an assortment of directory assistance and calling card calls for long-distance service.

Calculation of Savings

The calculation of consumer savings were conducted using the same methodology as used in the 1999 and 2001 TRAC studies of New York. That methodology can be summarized as follows:

The study makes every attempt possible to choose conservative assumptions regarding which calling plans the residential customers subscribed to before customers switched to the Regional Bell Operating Company (RBOC) for long-distance service or switched away from the RBOC for local service. Consequently, the amount of consumer savings achieved is most likely underestimated.

Long-distance savings are determined by comparing the RBOC's prices to those of other long-distance companies. The range of possible consumer savings is based on conservative assumptions regarding which calling plans the residential customers subscribed to before they switched to the RBOC for long-distance service. Customers that switched service from the "industry average" tended to save a significant amount of money. The price differential between the industry average price and Verizon's lowest rates was considered the "high-estimate" of possible consumer savings.

The price differential between the lowest rates offered by AT&T and WorldCom price and Verizon's lowest rates was considered the "low-estimate" of possible consumer savings.

A similar approach is used to calculate the savings achieved when consumers switch to a RBOC competitor for local telephone service. In this study, TRAC subtracts the lowest-priced competitor's plan from the highest-priced Verizon plan to determine the high end of potential savings. TRAC then subtracts the lowest-priced competitor's plan from the lowest-priced Verizon plan to determine the low end of potential savings.

TRAC believes that consumers will react similarly to increased market competition. Specifically, that the same proportion of consumers will switch phone service in New Hampshire as did in New York.

In New York, 1.7 million customers had switched to Verizon's long-distance service one year after Verizon had entered the long-distance market there. Since New Hampshire's population is 7% of New York's as of 2000, TRAC estimates that the number of consumers affected by Verizon's entrance into the long-distance market should consequently be 7% of the New York's affected population. Consequently, 110,708 New Hampshire customers are projected to switch to Verizon long-distance telephone service within one year after Verizon has entered New Hampshire's long-distance market. In relation to New York, if the same proportion of consumers switched local phone service in New Hampshire, 117,208 consumers would switch away from Verizon's local services. Consumers switch local phone providers because of 1) price, 2) quality of service and 3) convenience.

APPENDIX B
New Hampshire's Projected Residential Customer Savings One Year
After Increased Competition in the Long-Distance Market

Calling Basket (Pattern of Calls per Month)	Customers Affected	Low-Estimate of Monthly Per Customer Savings	High-Estimate of Monthly Per Customer Savings	Mean-Estimate of Monthly Customer Savings	Low-Estimate of Annual Savings	High-Estimate of Annual Savings	Mean-Estimate of Annual Savings
Local Savings							
Average Day, Minimal User	9,266	\$(7.53)	\$42.65	\$17.56	\$ (882,576)	\$ 4,998,919	\$ 2,058,172
Average Day, Light User	9,266	\$(7.49)	\$29.85	\$11.18	\$ (877,888)	\$ 3,498,658	\$ 1,310,385
Average Day, Average User	9,266	\$(3.94)	\$22.25	\$9.16	\$ (461,799)	\$ 2,607,877	\$ 1,073,039
Average Day, Heavy User	9,266	\$(5.90)	\$25.84	\$9.97	\$ (691,527)	\$ 3,028,654	\$ 1,168,563
Heavy Day, Minimal User	9,266	\$(7.31)	\$42.65	\$17.67	\$ (856,790)	\$ 4,998,919	\$ 2,071,065
Heavy Day, Light User	9,266	\$(5.98)	\$31.36	\$12.69	\$ (700,904)	\$ 3,675,642	\$ 1,487,369
Heavy Day, Average User	9,266	\$(4.04)	\$22.15	\$9.06	\$ (473,520)	\$ 2,596,156	\$ 1,061,318
Heavy Day, Heavy User	9,266	\$(6.30)	\$27.24	\$10.47	\$ (738,410)	\$ 3,192,745	\$ 1,227,167
Heavy Night & Weekend, Minimal User	9,266	\$(7.82)	\$42.65	\$17.42	\$ (916,566)	\$ 4,998,919	\$ 2,041,177
Heavy Night & Weekend, Light User	9,266	\$(5.98)	\$31.36	\$12.69	\$ (700,904)	\$ 3,675,642	\$ 1,487,369
Heavy Night & Weekend, Average User	9,266	\$(4.04)	\$22.15	\$9.06	\$ (473,520)	\$ 2,596,156	\$ 1,061,318
Ave Heavy Night & Weekend, Heavy User	9,266	\$(6.30)	\$28.10	\$10.90	\$ (738,410)	\$ 3,293,544	\$ 1,277,567
Total Local Savings	117,208	\$(6.05)	\$30.69	\$12.32	\$ (8,509,301)	\$ 43,165,362	\$17,328,031
Long-Distance Savings							
Avg. Use 6 Calls	9,226	\$ 0.84	\$ 5.33	\$3.09	\$92,998	\$590,095	\$342,100
Avg. Use 12 Calls	9,226	\$ 3.21	\$ 10.94	\$7.08	\$355,386	\$1,211,189	\$783,841
Avg. Use 18 Calls	7,380	\$ 3.59	\$ 16.44	\$10.02	\$317,930	\$1,455,926	\$887,371
Avg. Use 36 Calls	5,535	\$ 5.80	\$ 27.98	\$16.89	\$385,236	\$1,858,432	\$1,121,834
Avg. Use 60 Calls	3,690	\$ 5.69	\$ 42.76	\$24.23	\$251,953	\$1,893,413	\$1,072,904
Avg. Use 180 Calls	1,845	\$18.09	\$ 94.74	\$56.42	\$400,513	\$2,097,544	\$1,249,139
Heavy Day 6 Calls	9,226	\$ 1.60	\$ 4.62	\$3.11	\$177,139	\$511,489	\$344,314
Heavy Day 12 Calls	9,226	\$ 2.89	\$ 9.74	\$6.32	\$319,958	\$1,078,335	\$699,700
Heavy Day 18 Calls	7,380	\$ 3.90	\$ 10.61	\$7.26	\$345,384	\$939,622	\$642,946
Heavy Day 36 Calls	5,535	\$ 5.64	\$ 25.88	\$15.76	\$374,609	\$1,718,950	\$1,046,779
Heavy Day 60 Calls	3,690	\$ 6.73	\$ 38.39	\$22.56	\$298,004	\$1,699,909	\$998,957
Heavy Day 180 Calls	1,845	\$15.80	\$ 91.06	\$53.43	\$349,812	\$2,016,068	\$1,182,940
Heavy Night & Weekend 6 Calls	9,226	\$ 3.54	\$ 6.57	\$5.06	\$391,920	\$727,378	\$560,203
Heavy Night & Weekend 12 Calls	9,226	\$ 0.83	\$ 10.14	\$5.49	\$91,891	\$1,122,620	\$607,809
Heavy Night & Weekend 18 Calls	7,380	\$ 0.70	\$ 17.44	\$9.07	\$61,992	\$1,544,486	\$803,239
Heavy Night & Weekend 36 Calls	5,535	\$ (0.40)	\$ 30.94	\$15.27	\$ (26,568)	\$2,055,035	\$1,014,233
Heavy Night & Weekend 60 Calls	3,690	\$ (2.96)	\$ 46.09	\$21.57	\$ (131,069)	\$2,040,865	\$955,120
Heavy Night & Weekend 180 Calls	1,845	\$ 75.52	\$162.69	\$119.11	\$1,672,013	\$3,601,957	\$2,637,095
Total Long-Distance Savings	110,708	\$ 4.31	\$ 21.20	\$12.76	\$5,725,818	\$28,164,115	\$16,951,609
Combined Total of Long-Distance and Local Savings	N/A	N/A	N/A	N/A	\$ (2,783,483)	\$71,329,477	\$34,279,640

EMBARGOED: TO BE RELEASED ON JANUARY 30, 2002